

Decision _____

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Pacific
Gas and Electric Company for Recovery of
Costs of Gas Compressor Station
Compliance with AB 32 (U39G).

Application 12-06-010
(Filed June 18, 2012)

**DECISION GRANTING THE APPLICATION OF
PACIFIC GAS AND ELECTRIC COMPANY FOR RECOVERY OF
COSTS OF GREENHOUSE GAS REDUCTION COMPLIANCE FOR
GAS COMPRESSOR STATIONS AS REQUIRED BY ASSEMBLY BILL 32**

1. Summary

This decision grants Pacific Gas and Electric Company's (PG&E) unopposed Application for Recovery of Costs of Gas Compressor Station in Compliance with Assembly Bill (AB) 32 (Ch. 458, Stats. 2006). PG&E is authorized to increase natural gas rates and charges to collect the reasonable level of revenue requirements necessary for PG&E to recover the costs of compliance with AB 32 relating to PG&E's six natural gas compressor stations.

This proceeding is closed.

2. Background**2.1. The Application and Assembly Bill (AB) 32 and the Cap-and-Trade Regulation.**

Pacific Gas and Electric Company (PG&E) filed this application for recovery of costs of compliance with AB 32 regarding compressor stations

greenhouse gases (GHGs). AB 32 requires PG&E and other California electric and gas utilities to procure certain AB 32 GHG Compliance Instruments¹ beginning January 1, 2013 to meet the GHG reduction goals promulgated by the California Air Resources Board (CARB).² By this Application, PG&E seeks authorization to increase natural gas rates and charges to collect the reasonable level of revenue requirements necessary for PG&E to recover the costs of compliance with AB 32 relating to the six PG&E gas compressor stations. PG&E bases its Application on Pub. Util. Code §§ 451 and 453, as well as California Public Utilities Commission's (Commission or CPUC) Decision (D.) 12-04-046 in the Long-Term Electricity Procurement Plan Proceeding.³

¹ Compliance instruments a/k/a allowances, are part of the Compliance Instrument Tracking System Service (CITSS) promulgated by CARB. CITSS is a market tracking system that will support the implementation of GHG cap-and-trade programs for California and other jurisdictions. The CITSS provides accounts for market participants to hold and retire compliance instruments and to participate in transactions of compliance instruments with other account holders.

www.arb.ca.gov/cc/capandtrade/markettrackingsystem

² The landmark Global Warming Solutions Act of 2006 (AB 32 Ch. 488, Stats. 2006) established the first-in-the-world comprehensive program of regulatory and market mechanisms to achieve real, quantifiable, cost-effective reductions of GHGs. The Act requires that statewide GHG emissions be reduced to 1990 levels by 2020. In addition, then Governor Schwarzenegger set a target of reducing emissions to 80 percent below 1990 levels by 2050. This Commission has provided recommendations to CARB on how to reduce GHG emissions from the electricity and natural gas sectors. (See D.08-10-037 [October 22, 2008] *Final Opinion on Greenhouse Gas Regulatory Strategies*.)

³ *Decision on System Track I and Rules Track III of the Long-Term Procurement Plan Proceeding and Approving Settlement* (April 24, 2012).

AB 32 requires GHG emissions to be reduced to 1990 levels by 2020. As part of this statewide reduction plan, CARB has adopted a Cap-and-Trade regulation (effective on January 1, 2013), the effect of which is to establish a market-based price for GHG emissions and to provide market signals for efficient resource utilization and procurement activities to promote further GHG emissions reductions. Operators of any facility that annually emits at least 25,000 metric tons (MT) of carbon dioxide equivalent (CO₂e) are covered by the Cap-and-Trade regulation. Compliance begins in 2013 and is broken into three compliance periods. The first is for the years 2013 through 2014.

PG&E is the owner and operator of six natural gas compressor stations that emit over the 25,000 MT CO₂e per year compliance threshold. These compressor stations are located along PG&E's natural gas transmission pipelines in California. In a prior Commission Decision 12-04-046, PG&E was granted authority to "procure greenhouse gas compliance instruments on Commission-approved exchanges." (D.12-04-046.) The compliance instruments must be procured in compliance with D.12-04-046 and with PG&E's conformed GHG Procurement Plan (Plan) which was filed with the Commission on May 21, 2012. Per its Plan, PG&E's Energy Procurement will procure GHG Compliance Instruments for all PG&E GHG emissions subject to Cap-and-Trade regulation, and PG&E's Gas Transmission and Distribution Department will account for the compliance instruments attributable to the operations of PG&E's natural gas utility, including gas compressor stations at PG&E's weighted-average cost (*i.e.* the weighted-average cost of PG&E's allowances and offsets in a given compliance year).

Per PG&E's Application, it requires compliance instruments for the emissions from its compressor stations that emit over the 25,000 MT CO₂e per year compliance threshold. Should a gas compressor station that is below the compliance threshold emit above the threshold, it would then have a compliance obligation for its emissions. Similarly, should a compressor station that is above the threshold emit below the threshold for an entire compliance period, then that facility would no longer have a compliance obligation. PG&E contends that it cannot manage the amount of the compliance costs. PG&E states it does have control over the amount of usage of the compressor station, but not over the compliance costs with CARB's regulation.

2.2. Additional Testimony from PG&E and Division of Ratepayer Advocates (DRA)

Because there was some uncertainty as to certain aspects of PG&E's Application, the assigned ALJ sought additional testimony which we now discuss.⁴

First, there was a question as to whether or not the Application was a cost-recovery or a cost-forecasting Application. PG&E explained that the statewide cap on GHG emissions associated with the AB 32 Cap-and-Trade Program went into effect on January 1, 2013 and that PG&E is required to track GHG emissions and surrender one permit (allowances or offsets) for each ton of GHG emitted during this period on a schedule required by CARB. Pursuant to D.12-04-046 and PG&E's conformed Long Term Procurement Plan, PG&E asserts it has already incurred costs to procure allowances, and is required under AB 32 to hold GHG emissions allowances for the compressor stations beginning

⁴ ALJ Ruling dated January 17, 2013.

January 1, 2013. PG&E asserts that it participated in the GHG auction in November 2012 to obtain sufficient credits to cover the anticipated emissions from the compressor stations and will participate in quarterly auctions throughout 2013 and 2014. PG&E incurs costs based on the actual volume of gas that is managed by the PG&E transmission system beginning January 1, 2013. PG&E does not intend to seek recovery of these costs in another proceeding as the purpose of this Application is to obtain approval to include in its rates the costs associated with compliance with cap-and-trade attributable to the gas compressor stations for 2013 and 2014.

Second, there was a question why the 2013 and 2014 gas compressor station costs wouldn't be covered as part of PG&E's General Rate Case (GRC) filed on November 15, 2012 (Application (A.) 12-11-009). PG&E explained that the GRC establishes "forward looking costs related to PG&E's electric distribution system, its electric generation plants and its gas distribution system. The compressor stations are not part of PG&E's gas distribution system, they are part of PG&E's gas transmission system."⁵ Instead "costs associated with gas transmission are included in the Gas Transmission and Storage Rate Case (GT&S). The next GT&S rate case will be effective 2015. PG&E's compliance costs associated with cap-and-trade for 2015 onwards will be included in the GT&S; this Application covers the gap years of 2013 and 2014."⁶

⁵ Declaration of Christopher Warner, January 18, 2013, at 2.

⁶ *Id.*, 3.

Third, the assigned Administrative Law Judge (ALJ) asked for clarification regarding the difference between the GT&S, the Annual Gas True-Up, and the Energy Resource Recovery Account (ERRA). PG&E explained that the GT&S “adopts the gas revenue requirement for providing gas transmission and storage service, sets the marketplace design, and determines cost allocation and rate design for the revenue requirements adopted in the case.”⁷ The Annual Gas True-Up “is an advice letter used to update gas rates each year with items that are approved in other forums: it updates previously authorized balancing accounts as well as consolidates all other previously authorized gas rate changes effective on January 1 of each year.”⁸ The ERRA forecasts electric procurements costs and does not relate to this Application.⁹

Fourth, if PG&E underestimates its revenue requirement for the first two years of AB 32 compliance, is PG&E proposing to cap its recovery by the amounts identified in its Application and Joint Motion (\$3.335 million for 2013 and \$4.268 million for 2014)? PG&E responded that it “will only recover its actual costs of AB 32 compression station compliance. PG&E has requested approval of its proposed revenue requirement, as well as approval to establish a balancing account. The purpose of the balancing account is to allow for an annual true-up through the Annual Gas True-Up (in which other balancing account balances are updated) at year end.”¹⁰ Per PG&E, if it has underestimated

⁷ *Id.*

⁸ *Id.*

⁹ *Id.*

¹⁰ *Id.*, 4.

the revenue requirements in the first year, the resulting under collection in the balancing account will be trued up and entered into rates in the next year.

Finally, the assigned ALJ sought clarification of the Electric Cost Balancing Account (ECBA) and its role in this Application. PG&E explained that the ECBA “is actually a gas balancing account; it tracks the electric costs of operating PG&E’s gas compressor stations with compressors that are run on electricity. PG&E proposes to rename the account to Gas Operational Cost Balancing Account (GOBA) and have it track both the electric operating costs of the compressor stations as well as the emission allowance costs related to the compressor stations on PG&E’s gas transmission system.”¹¹

2.3. DRA’s Protest

On July 23, 2012, DRA protested the Application and raised the following issues:

- (1) Whether the forecast GHG revenue requirements are reasonable and what is the impact of these revenue requirements on rates; and
- (2) Whether there should be an interim GHG compressor station memorandum account.

2.4. Resolution of Dispute between PG&E and DRA

On July 27, 2012, the assigned ALJ issued a ruling scheduling a prehearing conference (PHC) for October 29, 2012, and further ordered that PG&E and DRA meet and confer and file a joint PHC statement by October 22, 2012. PG&E and DRA have since met and conferred, have resolved their differences, and have filed a joint motion seeking a ruling taking the upcoming PHC and future

¹¹ *Id.*

evidentiary rulings off calendar. While the Protest has not been withdrawn, DRA stipulated via the joint motion that “DRA has had a reasonable time to review and conduct discovery on the reasonableness of PG&E’s AB 32 compliance cost estimates and cost recovery proposal in this proceeding.” Further DRA stipulates that it “accepts PG&E’s forecast costs and ratemaking proposals pertaining to greenhouse gas compliance costs for natural gas compressor stations as reasonable.”¹² In view of this agreement, the joint motion was granted on October 18, 2012.

No other party has filed to protest or intervene in this proceeding other than DRA, and therefore PG&E’s application is uncontested.

3. Discussion

3.1. Are PG&E’s Costs of Compliance with AB 32 Relating to its Natural Gas Compressor Stations Reasonable?

In evaluating the Application, we discuss the reasonableness of PG&E’s GHG Compliance Instrument price assumption, and PG&E’s total GHG Compliance Instrument obligation estimate.

3.1.1. The Reasonableness of GHG Compliance Instrument Price Assumption

In its Prepared Testimony for A.12-06-010, PG&E explained that its total estimated cost of compliance is \$3.292 million in 2013 and \$4.213 million in 2014, was calculated by multiplying the estimated cost of compliance instruments by the number of compliance instruments projected to be required.¹³ PG&E notes

¹² Joint Motion, at 1.

¹³ PG&E Prepared Testimony, June 18, 2012, at 1-3.

that these estimates will vary based on actual compressor station emissions and actual costs of compliance instruments procured.

We find that PG&E's methodology for forecasting GHG Compliance Instrument prices is reasonable. While it is true that the actual costs of compliance may vary from these estimates based on changes in compressor station emissions and the actual costs of GHG Compliance Instruments procured, PG&E will be required to true-up its estimated revenue requirement related to the costs of compliance for its gas compressor stations via the procedure PG&E provided that is discussed in its Application.¹⁴

3.1.2. The Total GHG Compliance Instrument Obligation Estimate

In its Prepared Testimony for A.12-06-010, PG&E estimates the amount of GHG Compliance Instruments required for its cap-and-trade compliance obligations associated with its gas compressor stations for 2013 and 2014. This estimate is the total of all compressor station emissions for which PG&E expects to have compliance obligations (i.e., compressor stations that emit greater than the cap-and-trade compliance threshold of 25,000 MT CO₂e). To estimate this total, PG&E averaged the 2008-2011 emissions from the six compressor stations it expects will have compliance obligations in 2013 and 2014, and summed those emissions for each year. PG&E expects that each of these stations will emit greater than the 25,000 MT CO₂e threshold in 2013 and 2014.¹⁵ PG&E's methodology used the estimate of total annual compressor station emissions, varying by at most 18,000 MT CO₂e (approximately 7 percent) from the average

¹⁴ Application, at 4.

¹⁵ PG&E Prepared Testimony, June 18, 2012, at 1-3.

total over those years. However, PG&E states that “[p]er ARB’s AB 32 cap-and-trade regulation... [s]hould a compressor station that is above the threshold emit below the threshold for an entire compliance period, then that facility would no longer have a compliance obligation.”

We find that it is reasonable for PG&E to use the aggregate emissions calculation for determining the emissions for each facility separately, especially given the small number of compressors at issue.

3.2. PG&E’s Request for an Interim GHG Compressor Station Memorandum Account

PG&E initially requested an interim Memorandum Account. But since the compliance period has already begun, the question of an interim Memorandum Account is not moot. We observe that PG&E claims it has incurred some costs between January 1, 2013, and today’s decision. Those costs are not subject to recovery because to allow recovery would constitute retroactive ratemaking. (*Pacific Telephone & Telegraph v. Public Utilities Commission* (1965) 62 Cal.2d 634.)

3.3. Reasonableness of Recovery

In the above sections, we find that the cost assumptions and the emissions estimates are both reasonable. Therefore, we grant PG&E’s request to recover GHG compliance costs associated with the six natural gas compressor stations. Furthermore, we also grant PG&E’s request to revise the name of ECBA to GOBA. PG&E shall file a Tier 1 advice letter within 30 days of this decision making this change. PG&E shall record the costs associated with AB 32 compliance for the six compressor stations in the GOBA.

4. Waiver of Comment Period

Pursuant to Rule 14.6(b) of the Commission's Rules of Practice and Procedure, all parties stipulated to waive the 30-day public review and comment period required by Section 311 of the Public Utilities Code and the opportunity to file comments on the proposed decision. Accordingly, this matter was placed on the Commission's agenda directly for prompt action.

5. Categorization and Assignment of Proceeding

Mark J. Ferron is the assigned Commissioner and Robert M. Mason III is the assigned ALJ in this proceeding. This proceeding is categorized as ratesetting.

Findings of Fact

1. Pursuant to AB 32, the California Global Warming Solutions Act (Ch. 488, Stats. 2006), the CARB promulgated a GHG emissions Cap-and-Trade regulation that requires PG&E and other California electric and gas utilities to comply with the rulemaking and procure certain AB 32 GHG Compliance Instruments a/k/a allowances beginning January 1, 2013 to meet the GHG-reduction goals.

2. On April 24, 2012, the Commission issued D.12-04-046 in the Long-Term Electricity Procurement Plan Proceeding in Rulemaking 10-05-006, authorizing PG&E, Southern California Edison Company, and San Diego Gas & Electric Company to recover the costs of their electric utility-related AB 32 Cap-and-Trade GHG Compliance Instrument transactions.

3. AB 32 requires natural gas utilities beginning January 1, 2013 to procure GHG Compliance Instruments to cover the emissions of any natural gas compressor station emitting more than 25,000 MT CO₂e per year.

4. PG&E's natural gas utility owns and operates six gas compressor stations as part of its CPUC-jurisdictional natural gas service to retail customers: Burney, Delevan, Gerber, Hinkley, Kettleman, and Topock.

5. On June 18, 2012, PG&E filed A.12-06-010 to increase its gas rates to recover the costs associated with compliance with the AB 32 Cap-and-Trade regulation. PG&E's Application requests that the Commission authorize recovery of estimated revenue requirements for 2013 and 2014 -- \$3.335 million for 2013 and \$4.268 million for 2014.

6. A.12-06-010 seeks to record the compliance costs in a sub-account of ECBA, to be renamed GOBA. The GOBA would be trued-up compared to actual incurred AB 32 compliance costs in PG&E's Annual Gas True-Up rate change filing.

7. A.12-06-010 sought authority to establish an interim Memorandum Account prior to the beginning of 2013.

8. On July 23, 2012, DRA filed its protest to A.12-06-010 and listed the following issues that it anticipated the need to address in the proceeding:

- a. Whether the forecast GHG revenue requirements proposed by PG&E are reasonable, and the impact of these incremental revenue requirements on PG&E's rates, including the reasonableness of PG&E's assumption on GHG Compliance Instrument prices and PG&E's estimate of its total GHG Compliance Instrument obligation for the gas compressor stations; and
- b. Whether PG&E's request for Memorandum Account treatment for its GHG Compliance Instrument costs is consistent with prior CPUC directives and decisions pertaining to GHG compliance.

9. On July 27, 2012, the assigned ALJ in A.12-06-010 issued an ALJ Ruling scheduling a PHC for the proceeding on October 29, 2012 and ordering PG&E and DRA to meet and confer and file a joint PHC statement by October 22, 2012.

10. Pursuant to the ALJ Ruling, PG&E and DRA have met and conferred and have agreed to the stipulation attached to their Joint Motion. They request that PG&E's application be submitted for the record and approved by the end of 2012, based on the pleadings, prepared testimony, and PG&E-DRA stipulation attached to their Joint Motion. Pursuant to the stipulation DRA "has had a reasonable time to review and conduct discovery on the reasonableness of PG&E's AB 32 compliance cost estimates and cost recovery proposal." Further, "DRA agrees that PG&E's forecast costs and ratemaking proposals pertaining to greenhouse gas compliance costs for natural gas compressor stations are reasonable." While DRA has not withdrawn its protest, we find that the stipulation resolves the concerns raised in the protest.

11. No other party has filed to protest or intervene in this proceeding other than DRA, and therefore PG&E's application is uncontested.

12. The proposed GHG Compliance Instrument price assumption is reasonable.

13. The estimated total GHG Compliance Instrument obligation is reasonable.

Conclusions of Law

1. It is reasonable to track the costs of PG&E's six gas compressor stations in order to comply with AB 32.

2. It is reasonable to record the costs of AB 32 compliance for gas compressor stations in ECBA sub-account, renamed GOBA.

3. An interim Memorandum Account to cover costs incurred between January 1, 2013 and this decision would constitute retroactive ratemaking.

O R D E R

IT IS ORDERED that:

1. Application 12-06-010 filed by Pacific Gas and Electric Company (PG&E) is granted. PG&E is authorized to increase natural gas rates to collect its reasonable costs of compliance with Assembly Bill 32 requirements related to its six gas compressor stations. PG&E may increase its natural gas rates to recover its estimate of \$3.335 million for 2013 and \$4.268 million for 2014.

2. Application 12-06-010 covers the years 2013 and 2014.

3. Pacific Gas and Electric Company's compliance costs associated with Cap-and-Trade for the year 2015 and onward will be included in the next Gas Transmission and Storage Rate Case.

4. Pacific Gas and Electric Company may not establish an Interim Memorandum Account to recover the Assembly Bill 32 compliance costs of its six gas compressor stations incurred prior to the date of this decision.

5. Pacific Gas and Electric Company (PG&E) shall revise the name of the Electric Cost Balancing Account sub-account to the Gas Operational Balancing Account. PG&E shall file a Tier 1 advice letter reflecting this change within 30 days of this decision.

6. Pacific Gas and Electric Company (PG&E) shall record its actual Assembly Bill 32 compliance costs incurred in 2013 and 2014 for its six natural gas compressor stations in the Gas Operational Balancing Account. These costs for the years 2013 and 2014 shall be trued up in PG&E's Annual Gas True-Up advice letters.

7. Application 12-06-010 is closed.

This order is effective today.

Dated _____, at San Diego, California.